

# CHAPTER 6

# BUDGETING

## How Will You Use Your Money?

### WHAT'S AHEAD

- 6.1** Choose Financial Goals
- 6.2** Track Income and Expenses
- 6.3** Your Budget Worksheet
- 6.4** Create Your Budget for the Year

## LESSON 6.1

# Choose Financial Goals

## GOALS

- ▶ Identify your financial goals.
- ▶ Explain how your goals might affect your family and community.

# KEY TERM

- budget

# Types of Financial Goals

- ▶ Budget
- ▶ Short-term financial goals
- ▶ Long-term financial goals
- ▶ Balancing short-term spending with long-term success

# Your Goals Affect Others

- ▶ **Your family and your goals**
  - ▶ Your current family
  - ▶ Your future family
- ▶ **Your community and your goals**

# CHECKPOINT 6.1

- Why should your short-term goals fit in with your life-span goals?
- Why do other members of a community benefit when individuals within that community achieve their life-span goals?

## CHECKPOINT 6.1 ANSWERS

➤ Why should your short-term goals fit in with your life-span goals?

If a person's short-term goals do not contribute to his or her life-span goals, it is unlikely that these goals will ever be achieved.

# CHECKPOINT 6.1 ANSWERS

- Why do other members of a community benefit when individuals within that community achieve their life-span goals?

Other members of a community will benefit because individuals who achieve their life-span goals will be productive citizens in their chosen careers and spend income in that community, pay taxes, and not require public assistance.

## LESSON 6.2

# Track Income and Expenses

## GOALS

- ▶ Describe how to set up an effective filing system for your records.
- ▶ Explain the difference between fixed and flexible spending.

# KEY TERMS

- **fixed expense**
- **flexible expense**
- **luxury good**

# Keep Financial Records

- ▶ Track your income
- ▶ Track your spending
- ▶ Establish a filing system
- ▶ Effective record keeping
- ▶ How to use financial records

# Fixed and Flexible Expenses

- ▶ **Fixed expenses:** amounts you are committed to spend
- ▶ **Flexible expenses:** amounts that you can choose to spend or not to spend

## CHECKPOINT 6.2

- Describe a filing system you could set up to keep records of your financial transactions.
- How do fixed and flexible expenses affect your spending plan?

## CHECKPOINT 6.2 ANSWERS

➤ Describe a filing system you could set up to keep records of your financial transactions.

A filing system needs to be . . .

- comprehensive
- easy to use
- easy to maintain

## CHECKPOINT 6.2 ANSWERS

➤ How do fixed and flexible expenses affect your spending plan?

- Fixed expenses must be paid and therefore must be included in a spending plan.
- Flexible expenses may be important, although not required, and should be included in a spending plan, but not to the extent that they prevent payment of fixed expenses.

## LESSON 6.3

# Your Budget Worksheet

## GOALS

- ▶ Identify steps you should take to create a budget worksheet.
- ▶ Explain common problems with budgeting.

# KEY TERM

- budget worksheet

# Create Your Budget Worksheet

- ▶ **Step 1: Create a worksheet**
- ▶ **Step 2: Estimate your income**
- ▶ **Step 3: Estimate your expenses and savings**
- ▶ **Step 4: Record your actual income and expenses**
- ▶ **Step 5: Calculate the differences**

# Budget Pitfalls

- ▶ **Few consumers have realistic budgets.**
  - ▶ Some people get too specific.
  - ▶ Some people don't predict the correct amount of their flexible expenses.
  - ▶ Some people lump too many expenses under *miscellaneous*.
  - ▶ Some people give up on budgets because they think budgets take too much time and effort.

## CHECKPOINT 6.3

- What steps should you take to create a budget worksheet for yourself?
- What are some problems people may encounter when trying to budget?

## CHECKPOINT 6.3 ANSWERS

- What steps should you take to create a budget worksheet for yourself?
  - The best way to estimate future income and spending is to examine past income and spending.
  - Maintaining an accurate and complete record of income and spending will enable an individual to construct an appropriate one-month budget worksheet.

## CHECKPOINT 6.3 ANSWERS

➤ What are some problems people may encounter when trying to budget?

People run into problems with budgets when they . . .

- Are too detailed
- Incorrectly predict the amount of flexible expenses
- Lump too many expenses under the miscellaneous category
- Fail to set aside time to maintain the budget

## LESSON 6.4

# Create Your Budget for the Year

## GOALS

- ▶ Evaluate and adjust your budget worksheet.
- ▶ Explain why consumers should create and update yearly budgets.

# KEY TERM

- **audit**

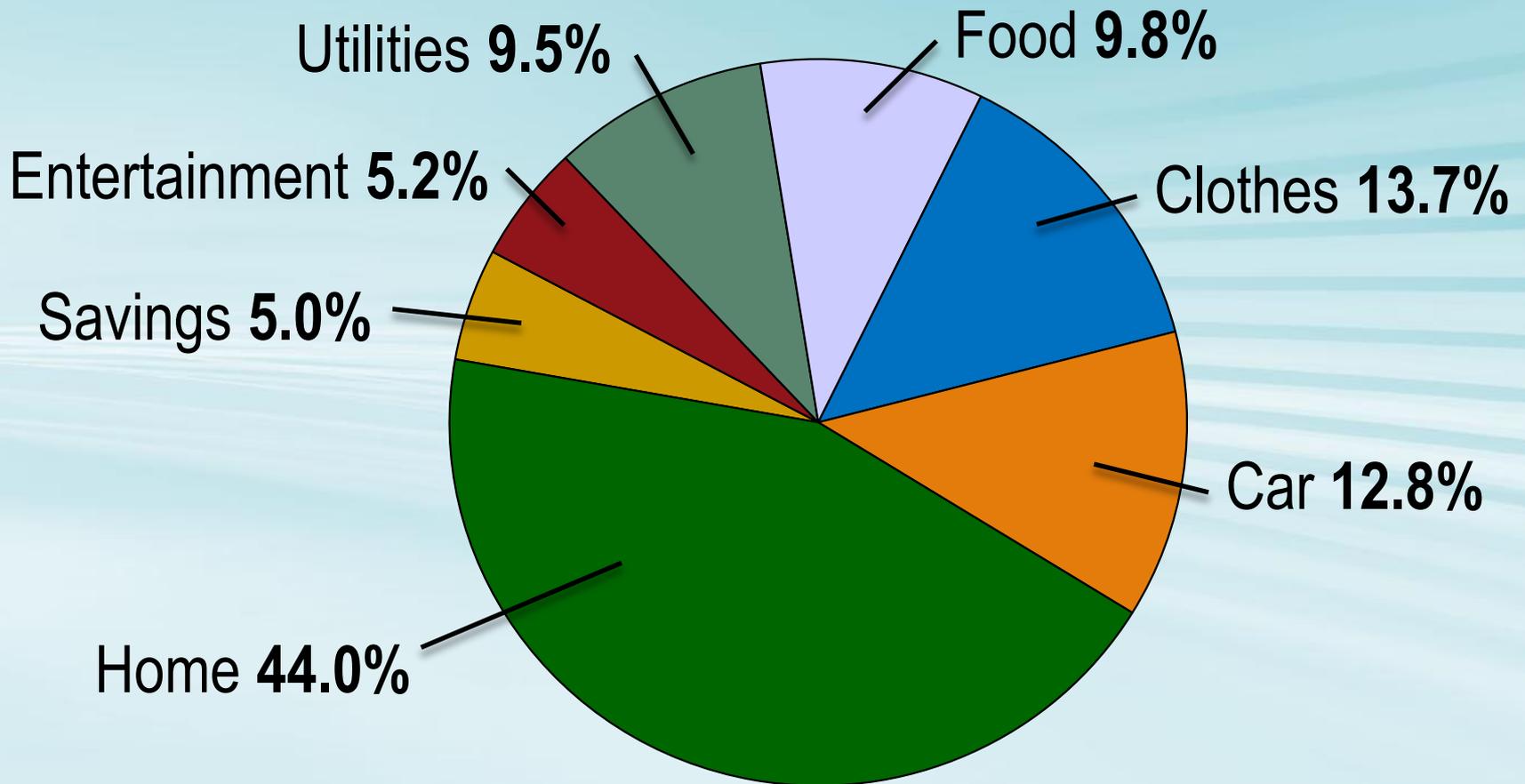
# Evaluate Your Budget Worksheet

- ▶ Adjust your spending
- ▶ Make several plans

# Budgeting for the Year

- ▶ Review and adjust your budget
  - ▶ Relate your goals to your budget
  - ▶ Adjust to changing goals
- ▶ Family budget
  - ▶ Planning together
  - ▶ Compromising
- ▶ The budget cycle

# Sample Family Budget



## CHECKPOINT 6.4

- How should you adjust your budget worksheet to receive the greatest satisfaction from your income over time?
- What steps should people take to create and update their yearly budgets?

## CHECKPOINT 6.4 ANSWERS

- How should you adjust your budget worksheet to receive the greatest satisfaction from your income over time?
  - If your spending exceeds estimates, you can either adjust your spending estimates or change your spending habits.
  - You should choose whichever option best meets your life-span goals.
  - Completing several budget worksheets will show various spending and saving options and allow you to select the one that works best for you.

# CHECKPOINT 6.4 ANSWERS

- What steps should people take to create and update their yearly budgets?
- By reviewing your budget at least once a year, you can compare your financial plan with what actually happened.
- You can also assess outcomes in light of any of your goals that may have changed.
- With these evaluations in mind, you can make appropriate adjustments for your next year's budget.